

For the year ended 31 March 2003, the Group's turnover increased by 13% to HK\$821 million (2002: 726 million) and net profit decreased by 48% to HK\$10.9 million (2002: HK\$20.9 million) in comparison with the last year. We opened eight shops under the trading name of "Circle" in various Jusco department stores in January 2003 to expand our sales of mobile phones and related products. The increase in administrative expenses from approximately HK\$61 million to HK\$65 million principally reflected the operating costs for these new shops.

Sales of mobile phones

Although the turnover was increased by 19% to HK\$758 million (2002: HK\$ 639 million), the profit was dropped by about 42 % to HK\$6.7 million (2002: HK\$11.5 million). With the intensive competition in the mobile handset market and economic recession in Hong Kong, the profit margin has been greatly eroded. In addition, the start-up costs and low turnover of the "Circle" retail chain during the initial period of the operation has further reduced the profit.

Sale of office telephone systems

The turnover was dropped by 20% to HK\$31 million (2002: HK\$38 million) and the profit was HK\$0.7 million. The decline in corporate spending due to adverse economic conditions led to the drop in both turnover and profit.

Connection service

The saturated penetration rate of the mobile phone service subscribers restricted the growth of the business. The profit for this segment was HK\$0.1 million.

Property investment

The rental income was stable during the year.

Installation, repair and maintenance services

The reluctance of the customers to replace the existing equipment led to the increase in demand of these services. This segment contributed HK\$6.1 million to the Group, representing a 19% increase when compared with last year.

PROSPECTS

Purchase of property

As disclosed in our circular dated 4 November 2002, a property adjacent to one of our existing investment properties has been acquired at a consideration of HK\$48,200,000. This will not only provide a source for stable rental income but also cater for an opportunity to re-develop the relevant properties should the market situation and return justify. We hope that this will improve the quality and enhance the value of Group's properties portfolio.

Retail chain

As at the date of this announcement, the Group operates seventeen retail outlets under the trading name of "Circle" and three franchised retail outlets: a "Smartone" shop (formerly known as "Extra" shop) and two "Nokia Professional Centre". The cost savings and benefits brought from economic of scale of operations will be reflected in coming year.

Joint venture company in Shanghai, the PRC

As disclosed in the interim report, we have formed a joint venture company, 80% owned by us, in Shanghai, for sales of telecommunication system and other high-tech products. This gives us a foothold to seek other investment and co-operation opportunities in China.

Research and development

A new product, 5.8G wireless PABX, is expected to be launched in October 2003. A marketing company in United States has been employed for promotion and sales of this product and other existing products.

The outbreak of SARS in March 2003 affected almost all sectors of the community. Unavoidably, the Group's sales were reduced by about 30 % in April and May 2003. To ease the burden of high stock, we lowered the selling price to stimulate the sales. The sales were gradually improved from June 2003 but the profit margin was further squeezed.

In facing such an adverse market environment, the Group will continue to tighten the cost control, explore new market and investment opportunity to enhance the Group's value and return.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003 the Group's cash and bank balances amounted to approximately HK\$22 million (2002: HK\$51 million) while the bank borrowing was HK\$33 million (2002: HK\$1 million). The significant drop in the cash and bank balances was due to the payment of 30% purchase price, amounting to HK\$14.4 million, of a property, HK\$3 million for expanding the "Circle" shops, HK\$4 million for investment in a joint venture company in Shanghai. In addition, HK\$8 million has been placed in certificates of deposit issued by a bank to earn more interest income. The bank borrowing is denominated in Hong Kong dollars and is repayable by 120 monthly instalments at a fixed interest rate.

The gearing ratio was 16.6% (2002: 0.6%) which is expressed as a percentage of total borrowings to shareholders' funds. The increase in gearing ratio was due to the increase in bank borrowing of HK\$33 million for purchase of a property.

As substantial portion of transactions are dominated in Hong Kong Dollar, the Group's exposure to exchange fluctuation is low.

CAPITAL EXPENDITURE

As disclosed in a circular dated 4 November 2002, a property was acquired at a consideration of HK\$48,200,000. This was funded through a combination of internal resources and bank financing in a proportion of 30% and 70% respectively. The Group also invested HK\$4.2 million in furniture, fixtures, equipment and other tangible assets. This was financed from internal resources.

USE OF PROCEEDS OF NEW ISSUE

Up to 31 March 2003, the use of the listing proceeds are analysed as follows:

	Forecast HK\$'000	Actual HK\$'000
Repackaging and expanding the existing stores	5,000	5,000
Setting up sales and distribution network in United Kingdom and the United States	4,000	–
Expanding the distribution channel in PRC	4,000	–
Establishing a joint venture in Shanghai, the PRC for provision of systems integration services	2,000	2,000
Research and development	8,000	4,000
General working capital	7,500	7,500
	<u>30,500</u>	<u>18,500</u>

The unused balance of approximately HK\$12 million has been placed into short-term bank deposits.

EMPLOYEES

As at 31 March 2003, the total number of employees of the Group was approximately 300 (2002: 230) and the remuneration of employees (excluding directors' emoluments) amounted to HK\$41 million (2002: HK\$45 million). The remuneration and bonus packages are based on the individual merits and performance and are reviewed at least annually. There is a share option scheme in place designed to award employees for their performance at the discretion of the Directors. The Group maintains a good relationship with its employees.

PLEDGE OF ASSETS

At 31 March 2003, certain leasehold land and buildings and investment properties with aggregate carrying values of HK\$4 million (2002: HK\$4 million) and HK\$54 million (2002: HK\$7 million) respectively were pledged to banks to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

Corporate guarantees totalling HK\$87 million (2002: HK\$48 million) have been executed to secure banking facilities granted to the subsidiaries.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 11 August 2003 to 12 August 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Pilare Limited, 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not later than 4:00 p.m. on 8 August 2003.

APPRECIATION

We would like to extend our sincere gratitude to all the staff members of the Group for their contribution and continued support during the year:

By order of the board of directors of
HKC International Holdings Limited
Chan Chung Yee Hubert
Chairman

Hong Kong, 18 July 2003